WESTPEAK RESEARCH ASSOCIATION

Nordstrom Inc. (NYSE: JWN)

Consumer Cyclical - Retail

Nordstrom - A Swedish Success Story

February 18, 2021

Nordstrom Inc. ("Nordstrom" or the "Company") is a luxury department store chain headquartered in Seattle, Washington with operations in the U.S. and Canada. The Company offers high-quality brand-name and private-label merchandise focused on apparel, shoes, cosmetics, and accessories through both full-price and off-price channels.

Thesis

Nordstrom's commitment to a dynamic and innovative economic model continues to bolster its prevalence in the fading department store industry. The Company's continued emphasis on disciplined capital allocation, durable generational investments, and a renewed focus on its most profitable markets has continued to strengthen margins and will drive digital growth going forward.

Drivers

Nordstrom Inc. currently holds 4.5% of the market share in the recovering department store industry. The effects of COVID-19, although seemingly detrimental, have rather catalyzed Nordstrom's dominance as the leading luxury goods retailer in this niche. Driven by maturing generational investments, capitalizing on their most important markets through omni-channel enhancements, fueling growth in their Off-Price segment, and increasing the velocity of the digital business, Nordstrom is well-positioned to drive long-term shareholder value.

Valuation

Our analysis has revealed a target share price of USD $42.00 - an implied upside of 16.5%. This was derived from an EV/EBITDA exit multiple and perpetuity growth approach through a DCF analysis, as well as EV/EBITDA and P/E multiples derived through a comparable companies analysis. Each was weighted at 25%, and thus, we initiate an **OUTPERFORM - BUY** rating.

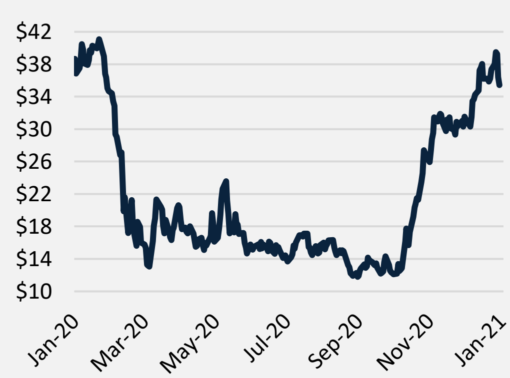
Analyst: Dylan Assi, BCom. '23
contact@westpeakresearch.com

Equity Research	US
Price Target	**USD$ 42.00**
Rating	**Buy**
Share Price (Feb. 17 Close)	USD$ 36.05
Total Return	16.5%

Key Statistics	
52 Week H/L	$42.22/$11.72
Market Capitalization	$5.68B
Average Daily Trading Volume	$7.61M
Net Debt	$4.57M
Enterprise Value	$10.26M
Net Debt/EBITDA	4.3x
Diluted Shares Outstanding	$157.7M
Free Float	69.7%
Dividend Yield	0.0%

WestPeak's Forecast	2020E	2021E	2022E
Revenue	$10.65B	$15.31B	$15.68B
EBITDA	($202M)	$1.42B	$1.65B
Net Income	($592M)	$433M	$651M
EPS	($3.76)	$2.74	$4.12
P/E	NM	13.2x	8.8x
EV/EBITDA	NM	6.6x	5.2x

1-Year Price Performance



Business Overview/Fundamentals

Company Overview

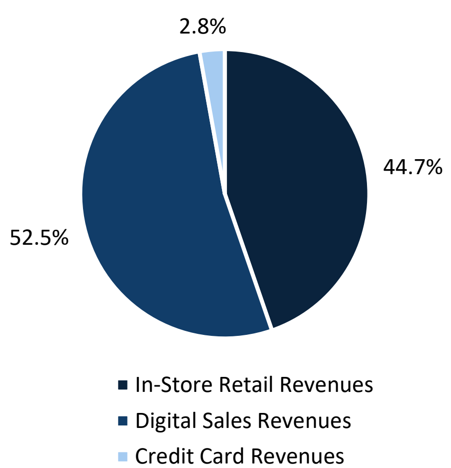
Nordstrom Inc. is a luxury department store chain headquartered in Seattle, Washington with primary operations in the U.S. and has recent expansion into Canada. The Company operates under the ticker symbol JWN, the initials of the founder, John W. Nordstrom, and is currently listed on the NYSE with 67.58% of its shares held by institutions and 32.64% owned by Nordstrom family members. The Company's future growth prospects are primarily driven by optimizing its omni-channel capabilities which distinctly revolves around unifying customers' shopping experience from a mobile device or a laptop, to brick-and-mortar stores. Through these enhanced omni-channel capabilities in both the Full-Price and Off-Price businesses, the Company reports under one overarching retail segment through integrated digital and physical platforms. This reportable segment includes 377 total stores, comprised of 116 full-price flagship locations in the U.S. and Canada; 248 Nordstrom Rack, off-price stores; 5 Nordstrom Locals; 6 Trunk Club clubhouses; 2 Last Chance clearance stores; and 3 websites (with mobile application counterparts). Similar to many retailers, Nordstrom Inc. exhibits seasonal fluctuations across its 52/53-week fiscal year ending on the closest Saturday to January 31st; during this period, above-average sales occur primarily amongst the second and third fiscal quarters with the July Anniversary Sale and the fourth-quarter holiday period. Despite prominence in major cities across the U.S. and Canada, Nordstrom's key strategies moving forward revolve heavily around digital expansion and scaling existing operations in their successful major markets rather than continuing to develop underperforming stores in less profitable regions. These scaling efforts will rely on the development of omni-channel centers, local omni-hubs, local boutiques, and Rack express services to provide expedited access to Nordstrom inventory that is sought-after in specified regions while scaling back physical footprint. This will ultimately allow local hubs and express services to act as "a way to compliment Nordstrom's footprint, not double down where they know they have customers." The increasing number of planned 3000 square foot Nordstrom Local hubs that do not carry dedicated inventory will cater towards the customers who have spent 2.5x the amount of regular Nordstrom customers. Recent expansion plans are depicted in the figure below.

Source: 2019 Q4 Earnings Slides

Segments

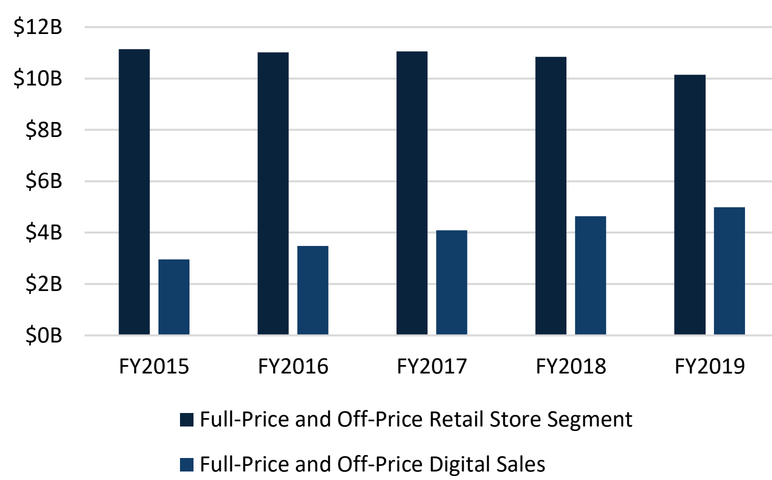
The Company operates under one reportable Retail segment which generates all revenues and is an aggregate of its two operating segments, Full-Price and Off-Price, as well as a second segment - Corporate/Other. Each of the Retail segment offshoots assists Nordstrom with adapting organizational strategies and goals to remain connected with customers, "serving them on their terms" to fulfill long-term growth plans. Currently, the emphasis of this focus is geared towards scaling omni-channel capabilities while reducing the existing brick-and-mortar footprint in Nordstrom's top 10 markets which represent more than half of the Company's total sales as discussed previously in the business overview. The graphs below reemphasize the previous statements with retail store sales accounting for gradually declining revenues while the focus of the Company transitions to rapid digital acceleration. We expect Nordstrom's digital sales to represent more than half of the Company's revenues generated across its Full-Price and Off-Price segments throughout FY2021 and into perpetuity. We have forecasted FY2021 digital sales of $8.393B while retail stores generate $6.574B and credit card revenues account for the remaining amount. One of Nordstrom's many competitive advantages in a diminishing department store industry lays in its ability to penetrate the market digitally which will allow the company to continue to thrive as it adapts to the online retail world.

Revenue Segmentation
Q3 2020



Source: Company Filings

Retail Store and Digital Sales, % of Total Revenue
FY15 - FY19



Source: Company Filings

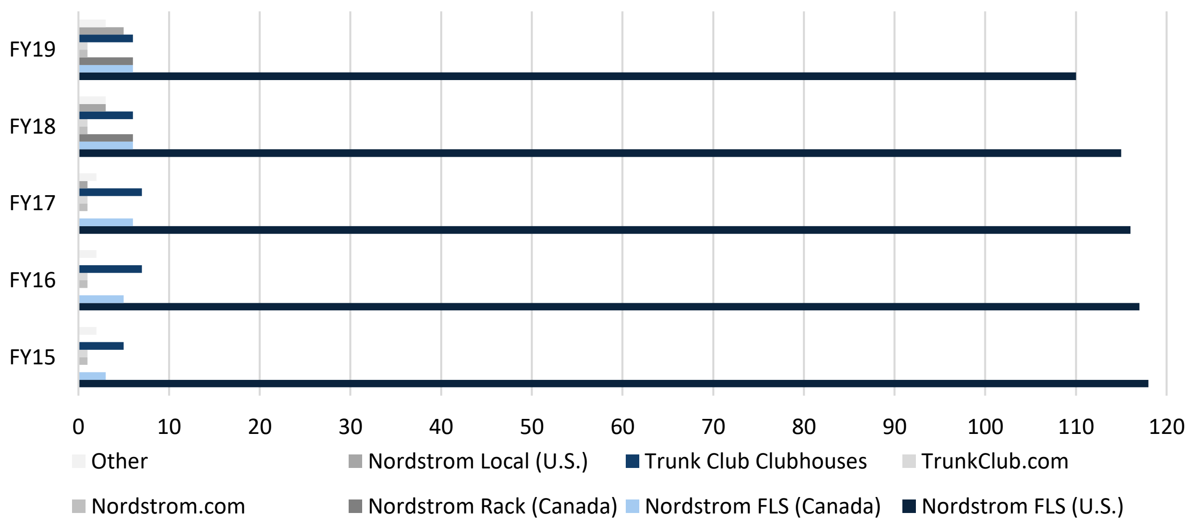
Retail Reporting Segment

The Full-Price and Off-Price operating segments have historically seen similar economic characteristics and are expected to remain this way, along with long-term financial performance in the future. Qualitatively, characteristics such as suppliers, distribution methods, customers, and regulatory environments are quite similar across the Retail reporting segment; Thus, Nordstrom Inc. has aggregated the two and uses EBIT as the key measure of profitability.

Full-Price Segment

Nordstrom's principal operating segment (Full-Price) consists of physical and digital assets to provide an integrated, omni-channel consumer experience. This includes traditional in-store and online shopping, of which a recently launched e-commerce platform dedicated to Canada has increased previous online sales volume by 10x, all of which is being fulfilled from existing store inventory. Prior to this increase, a third-party e-commerce platform was being utilized resulting in insufficient digital sales. Additionally, direct-to-consumer personalized services such as ship-to or pickup from store options, dedicated mobile apps for Nordstrom and Trunk Club, and Nordstrom Local express locations are becoming key consumer touchpoints in the Full Price segment. Below is a breakdown of the Nordstrom Inc. Full-Price segment, highlighting the broad array of competitive advantages offered across the current repertoire of Nordstrom Inc.

Full-Price Segment Growth (Store/ Website Count)
FY15 - FY19

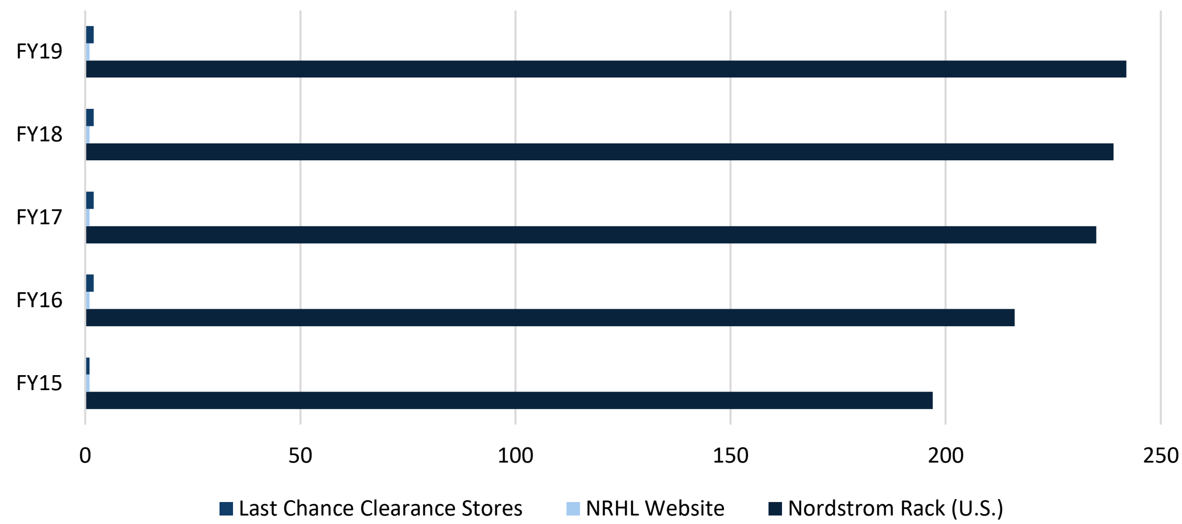


Source: Company Filings

Off-Price Segment

Nordstrom Inc.'s secondary operating segment (Off-Price) under the Retail reporting segment purchases inventory from vendors, and more prominently serves as a clearance outlet for merchandise from the Full-Price channel. Offering in-store and online shopping, this operating segment has unique advantages, unmatched by other organizations as explored in the table below.

Off-Price Segment Growth (Store/ Website Count)
FY15 - FY19



HAUTELOOK A NORDSTROM COMPANY

NORDSTROM rack

NORDSTROM rack.COM

Source: Company Filings

Corporate/Other Segment

Nordstrom Inc.'s Corporate/Other segment does not account for any of the Company's revenues, but rather the "unallocated corporate expenses and assets, inter-segment eliminations and other adjustments to segment results necessary for the presentation of financial results in accordance with GAAP."

Corporate Strategy

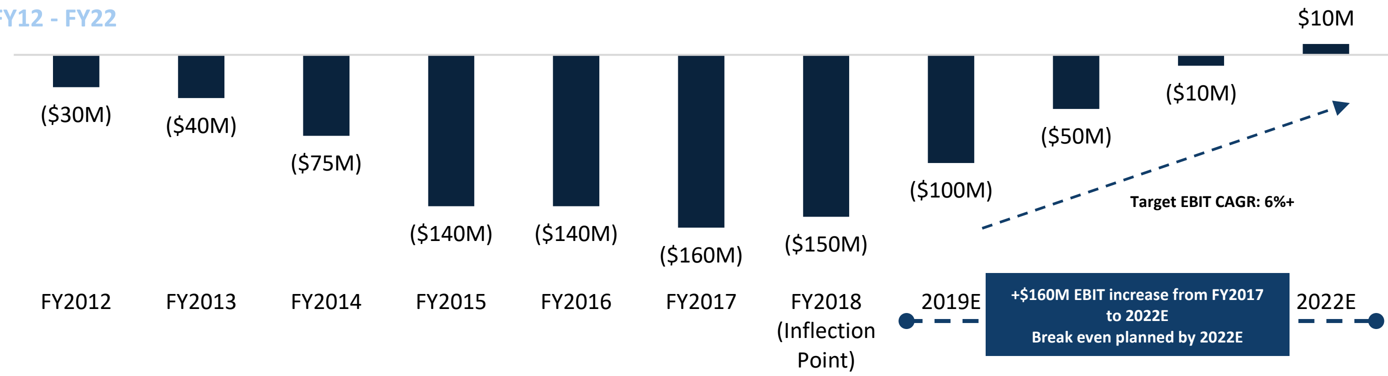
Nordstrom's corporate strategy stems from numerous strategic measures that tie into overarching pivotal growth in margins, return on invested capital, and maintaining disciplined capital allocation through generational investments. The Company places an unequivocal focus on its omni-channel capabilities, emphasizing integrating operations, merchandising, and technology within the Full-Price and Off-Price businesses, both in-store and online. This is accompanied by a vast supply chain network, robust corporate social responsibility, unmatched consumer engagement strategies, and superiority in the upscale fashion merchandise sector. The Company considered FY2018 as an inflection point for the aforementioned strategic measures which have remained relatively stable despite unforeseen economic downturns over the last year.

Generational Investments Impact

Nordstrom's generational investments comprise of NordstromRack.com/HauteLook, TrunkClub, Canada, and Manhattan. These investments have impacted the Company's EBIT margin over the past 8 years, notably between 2015 and 2017 exhibiting an impact of 160bps. Since 2018, Nordstrom has invested heavily into its generational investment scaling such as the opening of the New York City tower in 2019, and is anticipating breaking even for these investments by 2022 - an improvement of roughly 40bps relative to that of 2017. This focus on generational investments is beginning to elicit tangible results across a variety of capital efficiency metrics and is allowing the Company to further leverage its scalable assets. Notably, Nordstrom's financial commitments through 2022 position them for an EBIT CAGR of roughly 6% or more, outpacing the sales CAGR of 3% to 4% prompting significant EBIT margin improvement as previously discussed.

Generational Investments- EBIT Improvement

FY12 - FY22

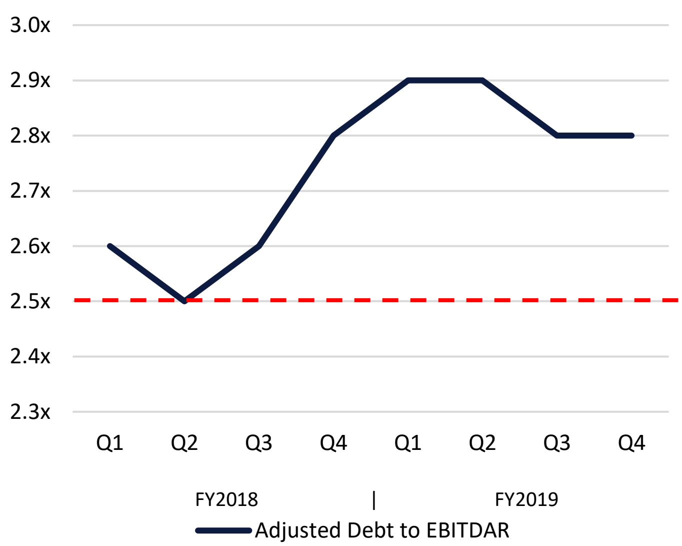


Source: Company Filings

Disciplined Capital Allocation

Adjusted Debt to EBITDAR

FY18 - FY19

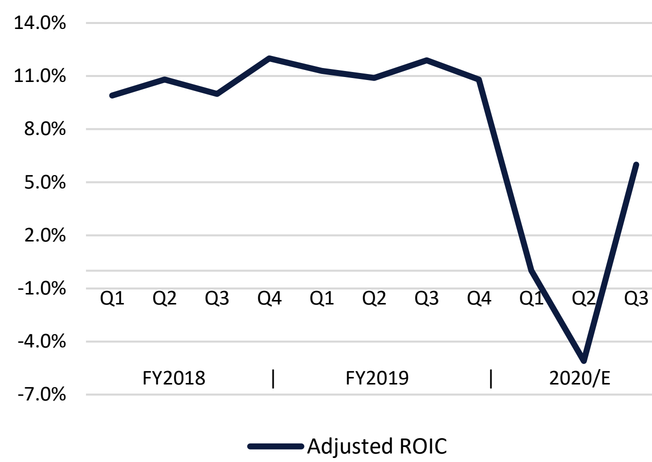


Source: Company Filings

Nordstrom's disciplined capital allocation has served as a heavily relied upon strategy throughout its existence, continually impacting EBIT growth and improvements to its Return on Invested Capital (ROIC). This disciplined approach is facilitated by managing inventory, moderating CAPEX, and maintaining a strong balance sheet. Chief Financial Officer, Anne Bramman, describes Nordstrom's capital allocation philosophy as maintaining "a consistent and balanced approach between reinvesting in the business and returning cash to shareholders while maintaining strong balance sheet and investment-grade rating." The Company targets a leverage ratio of Adjusted Debt to EBITDAR of 1.5x to 2.5x; this is an inexact best-estimate of total Company debt that Nordstrom would hold if they had purchased property and issued debt associated with operating leases to EBITDAR which does not reflect cash expenditures or future capital expenditures. Nordstrom was exhibiting an Adjusted Debt to EBITDAR above the target range prior to the COVID-19 pandemic and significantly below during the height of the lockdowns due to low EBIT margins sitting below 5% during Q3 2019 and falling further as the pandemic wreaked economic havoc. However, Nordstrom announced a strong commitment to expanding its profit margin to sustain a 6% and above EBIT margin. We believe that Nordstrom's advantaged position elicited by top-market expansion, Rack asset integration, and rapidly increasing digital velocity will allow the Company to capitalize on disruption in the retail sector to capture market share, drive profitable growth, and return to a target Adjusted

Debt to EBITDAR leverage ratio. Management has also announced a prioritized effort to pay down debt with plans that will return the leverage ratio to its target levels within 24 months.

Adjusted ROIC
FY18 - FY20



Source: Company Filings

In addition to generational investments' impact on EBIT, these investments, along with the Company's disciplined capital allocation strategy are largely monitored and driven by Adjusted Return on Invested Capital (Adjusted ROIC). Nordstrom utilizes Adjusted ROIC as a non-GAAP financial measure to evaluate the efficiency and effectiveness of capital being invested into the business to generate returns. The adjustment portion of this measure is highlighted by adjusting operating leases as if they met the criteria for capital leases or purchases of property (presented on the balance sheet), ultimately, allowing investors and credit agencies to employ another method of comparative evaluation in regard to capital efficiency and effectiveness. Nordstrom experienced a steep decline to their Adjusted ROIC when the COVID-19 pandemic hit, however, the company is well-equipped to bounce back to a low teen digits through improving working capital efficiency by lowering inventory and reducing asset intensity. The Company's digital velocity initiatives, Rack asset integration, and a reemphasized focus on top markets have likely potential to drive \$2B to \$3B in incremental revenue at high profitability while Adjusted ROIC will return to its pre-pandemic stature in the same time frame.

Omni-Channel Capabilities

Nordstrom's early-stage investment in its omni-channel capabilities is a market-leading point of differentiation that drives the success of the Company in the saturated retail industry. Firstly, the Company has been able to recognize the profitability of digital sales, notably since the beginning of the COVID-19 pandemic, and has continued to optimize its digital shopping experience and services. Curbside pickup, for example, has been a longstanding staple for Nordstrom whereas competitors had to adopt the infrastructure necessary to do so during the pandemic. Rather, Nordstrom was able to focus efforts on further increasing the effectiveness of this pickup feature by introducing 24/7 pickups at the New York City flagship. Additionally, Nordstrom has adopted a new mobile app feature that allows customers to reserve up to ten items they want to try on, while the applications' geolocation notifies an employee when the customer is 0.2 miles away to place those items in a fitting room. This seamless experience across in-store and online platforms allows Nordstrom to provide over 60 combinations of merchandise ordering, fulfillment, and delivery methods. Nordstrom has opened its first large-scale omni-channel center in Riverside, California to support its West Coast region customers this past spring, building off its year-old local omni-channel hub in Torrance, California. This growth amidst high-risk circumstances elicited by COVID-19 has proven the success of Nordstrom tackling its "final frontier" as mentioned by CFO, Anne Bramman, in emphasizing the importance of optimizing its omni-channel capabilities. Sequential improvement is the center of attention for Nordstrom as highlighted in the most recent Q3 earning slides with significant improvements to gross profit, which is down 150bps from 2019, improving from being down 1500bps in Q2 from 2019. Similarly, the continued return to "normalcy" and expansion for

Nordstrom through further omni-channel capability investments has returned a positive EBIT of $106 million in Q3 2020, up from ($370 million) in Q2 earlier this year.

Supply Chain Network

Nordstrom's omni-channel capabilities are largely driven by its expanding supply chain network. Consisting of fulfillment centers to process and ship orders to consumers, as well as distribution centers to process and ship merchandise to stores and facilities, Nordstrom's omni-channel capabilities are enhanced by this seamless network. The geographic positioning of Nordstrom's facilities and customized inventory allocations enable the Company to flow more effectively and efficiently. For in-store purchases, orders are fulfilled through existing inventory if possible, or sourced from its supply chain. Moreover, Full-Price online orders utilize fulfillment centers as the primary point of shipment, however, flagship stores, distribution centers, and omni-channel centers are also secondary points of shipment. Similarly, for Nordstrom's Off-Price businesses, online purchases are shipped from fulfillment centers and distribution centers. Both business streams use "vendor dropship," supplementary to their online offerings, shipped from vendor to end consumer directly.

Corporate Social Responsibility

Nordstrom's core intention in regard to corporate social responsibility (CSR) is "to leave it better than we found it." Each omni-channel and overall Company-related expansion is carried out with this in mind. Firstly, Nordstrom is reducing its greenhouse gas emissions by making regular investments in energy efficiency, renewable energy, and fuel efficiency. Additionally, recyclable paper and corrugated cardboard have begun to be recycled domestically, further emphasizing the commitment to CSR. Nordstrom has since joined the G7 Fashion Pact, a coalition of 56 fashion companies to promote goals to reduce our impact on the climate, biodiversity, and the oceans. Furthermore, the Company has placed a key focus on including more sustainable products across its merchandise lines, extending the useful life of products through internal clothing donation programs, and launching a dedicated "Sustainable Style" section on Nordstrom.com. Additionally, Nordstrom partakes in charitable efforts such as supporting "hundreds of nonprofit organizations," donating millions to youth empowerment, child support, and family care organizations. Treasure & Bond, a Nordstrom-made brand is the epitome of this, donating 2.5% of net sales to youth empowerment nonprofits. Total donations amount to $5 million since its initial launch in 2014.

Source: Company Filings

Consumer Engagement

Nordstrom differentiates itself from industry competitors by providing hallmark customer service. This includes efficient customer service representatives online, over the phone, and in-store. Additionally, Nordstrom's flagship loyalty program, "The Nordy Club" which launched in 2018 incorporates the benefits of the original loyalty program, while providing customers access to products, events, enhanced services, personalized experiences, and convenient shopping methods. Through shopping at different levels of spending and type of participation, Nordstrom issues redeemable "Nordstrom Notes." Furthermore, the Company offers Nordstrom-branded Visa® credit cards as well as a Nordstrom-branded private label credit card for in-house purchases. With this card, consumers also earn points through The Nordy Club, receiving additional benefits such as early access to the annual Anniversary Sale.

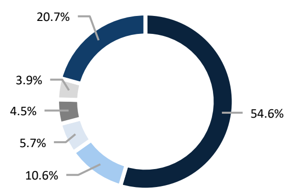
Upscale Fashion, Upscale Experience

Nordstrom's unique value statement is as follows: "We believe fashion is a business of optimism, and in that spirit, we continue to grow and evolve. Free shipping and free returns, mobile shopping, and exciting new retail partnerships offer us continued opportunities to serve more customers in more ways with a fresh, relevant shopping experience and inspiring style. Fashion changes. Shopping changes. Our commitment to happy customers doesn't." This upscale experience that acts as one of Nordstrom's key drivers and point of differentiation is made possible by its commitment to carrying only luxury brands across a wide range of apparel, shoes, beauty, and accessory merchandise for men, women, and children. Customers are met by a sense of esteem when entering a Nordstrom store, being surrounded by goods with hefty price tags, trend brands that Nordstrom continually partners with through popup shops such as Glossier, a digitally native fragrance brand with a young demographic following, and personalization options such as the Levi's Tailor Shop in the New York City flagship store. These unique points of differentiation are unmatched at Nordstrom's magnitude and prevalence in the retail industry and are bolstered further by impeccable customer service. From empowered employees who are provided training to solve customers' problems using their best judgement to consumer-facing services such as personal stylists, Nordstrom has been able to translate this into their digital sales services and continue withstanding the test of time.

Industry Analysis

Nordstrom primarily operates in the department store retail industry in the United States (NAICS 45211), with more recent expansion into Canadian markets. The department store industry has experienced a long-term decline over the past five years and is expected to see likewise in the near future. This is driven by revenue contraction, attributable to an increasing number of major firms who have diversified product ranges, embraced e-commerce consumer channels, and innovated more effectively. Target has been a prime example of this shift to the "supercenter" industry, relying less on consumers' disposable income and more on necessities.

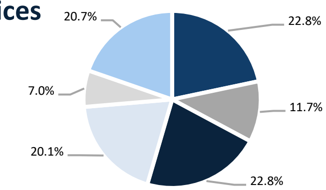
Major Players
As of Nov 2020



Source: IBISWorld

- Target (54.6%)
- Macy's Inc. (10.6%)
- Transformco (5.7%)
- Nordstrom (4.5%)
- J.C. Penney Company (3.9%)
- Other (20.7%)

Products/Services Segmentation
As of Nov 2020



Source: IBISWorld

- Women's Clothing and Footwear (22.8%)
- Men's Clothing and Footwear (11.7%)
- Home Goods and Appliances (22.8%)
- Durgs and Cosmetics (20.1%)
- Children's Clothing and Footwear (7.0%)
- Toys and Hobbies (3.7%)

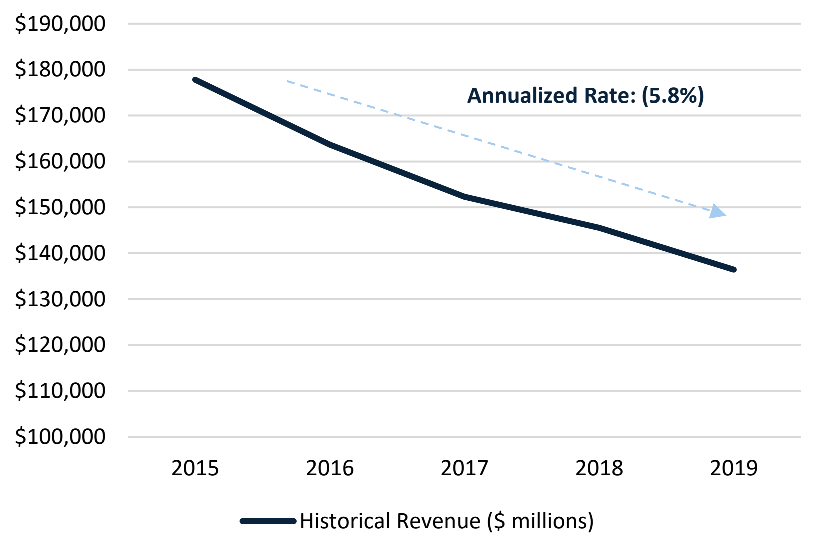
$111.0B	(9.0%)	(7.8%)	51	8.2%
Industry Size	Annual Growth 15-20	Annual Growth 20-25	Businesses	Conducted Online

Source: IBISWorld

Outlook

Through 2025 the department store industry is expected to continue its contraction at a marginally slower rate due to a recovering economy and higher per capita disposable income. However, the department store industry, constructed upon the brick-and-mortar concept is dying and e-commerce is taking the reigns while pushing the industry to adapt to a digital space and leaving those who can no longer innovate, grow, and compete behind. According to IBISWorld, industry revenue will fall at an annualized rate of 7.8% to $74.0 billion from the current $111.0 billion. Moreover, there is growing competition, as expected, from online retailers which will put further price pressure on industry competitors, as well as a complete shift out of the industry into the "Warehouse Clubs" and "Supercenter" industries. Nordstrom Inc. is well-positioned as they target niche luxury consumers, however, companies like J.C. Penny Company are in dire need of innovation.

Historical Industry Revenue (5Y)
FY15 - FY19

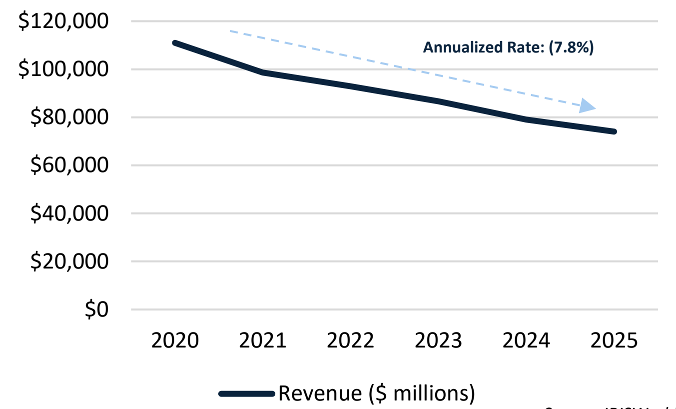


Source: IBISWorld

As previously mentioned, the department store industry relies heavily on consumer spending and disposable income levels. As the economy returns to previously projected growth patterns after the COVID-19 pandemic, improved demand conditions are likely. While industry revenue will likely fall over the next five years, disposable income is anticipated to increase at an annualized rate of 1.2%. This growth will act as an aid to department store sales as increasing money is a telltale sign of increasing purchases.

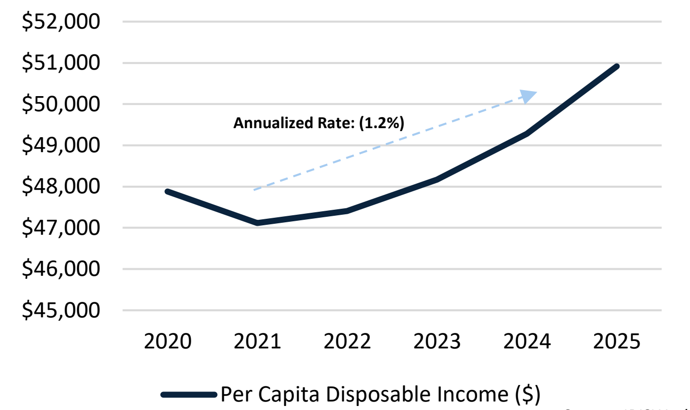
The present circumstances brought about by COVID-19, however, have not been a complete disaster for the industry. E-commerce has become a major point of focus for these companies as consumers now have this convenient method of shopping at their disposal. This eliminates the need for more physical stores or stock maintenance, allowing industry operators to focus on cost savings and offer customer experience-enhancing initiatives such as free shipping. Over the next five-year period, websites will continue to improve, likewise, will the consumer purchasing experience, prompting increasing online purchases at an annualized rate of 2.5%. Amidst this forecasted increase in online shopping, industry operators such as Nordstrom Inc. will shift the traditional large-scale stores to smaller formats (i.e., local boutiques) to hone in on the luxury goods niche where wealthy individuals will selectively shop.

Industry Revenue Forecast (5Y)
FY20 - FY25



Source: IBISWorld

Per Capita Disposable Income Forecast (5Y)
FY20 - FY25



Source: IBISWorld

Competitive Landscape

Market share concentration in the department store industry is quite high, with the top four companies accounting for roughly 75.5% of the total industry revenue. This concentration has continually increased over the last five years due to significant merger and acquisition activity, expansion of product offerings, and expansion of discount store offerings. This is a trend that is expected to continue over the next five years into 2025 as large companies exit the industry due to the detriment of the COVID-19 pandemic, or the transition to new industries such as the supercenters." IBISWorld has identified the following five key success factors to thrive in the department store industry over the coming years:

Success Factor	Advantage
1. Ability to Control Stock on Hand	To ensure sufficient product lines are available to maximize sales.
2. Attractive Product Presentation	Effective layout, design, shelf management, friendly and helpful service, and a clean environment.
3. Experienced Workforce	Require friendly, helpful, and knowledgeable sales staff.

4.	**Having a Wide and Expanding Product Range**	Market themselves as a convenient one-stop-shop.
5.	**Ability to Expand and Curtail Operations Rapidly in Line with Market Demand**	Expand during peak periods and curtail operations during weaker conditions.

Source: IBISWorld

The heavy saturation that has occurred in this industry is also driven by medium and steady barriers to entry. Firstly, **substantial funding** is required for any Company that is seeking to enter the department stores industry. The number of existing companies that have reached economies of scale and can negotiate favourable supply contracts with vendors forces potential entrants to obtain significant capital before entering. This will also go towards covering rent costs in high traffic areas, as well as purchase and wage costs for unautomated employee tasks such as customer interaction or stocking shelf space. Secondly, **distribution networks and licenses** between existing department stores and suppliers act as another significant barrier to entry; relationship building takes time in any domain that does not favour new entrants. Thirdly, **reputation** is a significant point of differentiation and barrier to entry in the department store industry. Nordstrom Inc. is acknowledged and known for its excellent customer service policies, while new entrants, lacking this insight, knowledge, and customer base will struggle when competing with these established operators.

Nordstrom's Relative Market Performance

Department stores represent roughly 30% of the retail space in the United State alone, however, their consumers spend a mere 2.4% of their income on clothing from these retail giants. Moreover, COVID-19 has accelerated the collapse of the department store sector that was already in progress, however, Nordstrom has continued to withstand the test of time as it has since 1901, and although not immune to the pandemic's toll, Nordstrom is much better off than many other companies. The Company generated $15.5B in revenue during FY2019, down 2.5% from the previous year, while competitors such as JCPenny suffered an 8.2% loss in revenues and Neiman Marcus was forced to file for bankruptcy. Moving into the peak of the pandemic, despite a 39.5% decrease in net sales during Q1 2020, the Company was able to grow its digital sales by 5% YoY. Additionally, Nordstrom's income statement and balance sheet are quite healthy compared to its peers with a net income of $496M and debt sitting at roughly $2.7B in FY2019, compared to that of Kohl's with a net income of $691M and debt of $6.1B, as well as Macy's with net income of $564M and debt of $5.0B. Largely fueled by the continual optimization of its digital footprint, Nordstrom has been able to mitigate the current economic effects brought about by COVID-19 and remains an adept leader in the department store industry as it transitions heavily to the online space.

At a Glance: Personal Luxury Goods Market

The personal luxury goods market consists of three subsectors, apparel and accessories, cosmetics and fragrances, and watches and jewellery. The former two will recover much quicker than the latter as these have largely driven the expected FY2020 digital sales of retailers (+16%) and wholesalers (+12%) according to Deloitte. This same report indicated that high-end skincare products have seen significant increases in online sales and should exhibit similar characteristics of exceptional digital sales channel growth. The watches and jewellery subsector, however, may see a slower recovery as this category relies heavily on tourism and an in-store purchasing process. From retailers' perspectives, brands such as Burberry partnered with Google to launch an AR shopping tool to experience an in-store simulation, Gucci designed a new app comprised of similar AR features, custom emojis, and Spotify playlists, and LVMH launched 'virtual escapades' through their social media channels to provide virtual exhibitions of products in the past, present, and future. These luxury brands retail goods in each of the aforementioned subsectors individually and have eloquently continued to innovate unique pull tactics throughout a global pandemic. Correspondingly, Nordstrom Inc. is the sole department store in the United States that carries items from each of these brands' entire product lines through many brick-and-mortar stores and the primary Nordstrom.com website. Consumers may use the Gucci app or Burberry AR tool, however, the reputation of outstanding customer service, curbside pickup, free returns, and many other incentivizing benefits of purchasing products directly through Nordstrom will increase transaction volume for the Company, capitalizing on indirect investments made by its portfolio companies.

In addition to this, during FY2019, LVMH Moet Hennessy Louis Vuitton SE acquired Tiffany & Co. in a 100% stake, $16.192B transaction. The LVMH group consists of 75 'Houses,' including popular personal luxury brands such as Louis Vuitton, Fendi, Givenchy, Kenzo, and Christian Dior, amongst many others. Each of these listed brands, housed under the LVMH Moet Hennessy Louis Vuitton SE are all sold at Nordstrom department stores, in-store and online. This acquisition now provides an opportunity for Nordstrom to engage in strategic planning with LVMH of the potential addition of luxury jeweller, Tiffany & Co. (FY2019 revenue of $4.424B) to its retail portfolio. All in all, Nordstrom's diverse portfolio of personal luxury brands in each market subsector have positioned the Company well as the sole U.S. brick-and-mortar and digital department store of its sales volume in the previously mentioned categories to recover quite effectively following the current pandemic and continue capitalizing on its generational investments (digital infrastructure).

Management Team

Erik B. Nordstrom - Chief Executive Officer, Principal Executive Officer & Director

Mr. Erik B. Nordstrom has led Nordstrom Inc. as the Chief Executive Officer since April 2015, the Principal Executive Officer since January 2019, and a Director since May 2006. Prior to assuming the role of CEO, Mr. Nordstrom was the President of Stores from 2006-2014. He also currently sits on the board of Nordstrom Inc. With a degree from the University of Washington, deep family roots, and experience with Nordstrom Inc. since joining in 1979, Mr. Nordstrom has worked his way from Store Manager in Minnesota to the CEO of the organization. These 41 years of executive and service-based experience provide Mr. Nordstrom with vital customer-centric skills to thrive in the evolving retail realm while maintaining the core roots of the Company.

Mr. Erik B. Nordstrom's total compensation for FY2019 was $6.872 million, of which $756,393 was base salary, $2.654 million stock/option awards, and the remainder from incentive plans ($708,591), change in pension value, and nonqualified deferred compensation earnings ($2.7 million), and other compensation ($52,070).

Peter E. Nordstrom – President, Director & Chief Brand Officer

Mr. Peter E. Nordstrom serves Nordstrom Inc. as the President and Chief Brand Officer, while also sitting on the board of the Company as a Director since 2006. Prior to becoming the sole President, he was Co-President of Nordstrom Inc. from 2000 – 2015 and the President of Merchandising from 2006 – 2015. Similar to Erik B. Nordstrom, Mr. Peter Nordstrom joined the Company in 1978, served as a Regional Manager in the Orange Country area, and worked his way through the ranks. These decades of exposure to the Company provide Mr. Nordstrom with a core understanding of Nordstrom Inc.'s values, customer-centric focus, and high-level of operational standards.

Total compensation for Mr. Peter E. Nordstrom for FY2019 totalled roughly $6.979 million. Breaking this down further, $756,393 came from base salary, $2.654 million from stock/option awards, $708,591 from his non-equity incentive plan, roughly $2.782 million from a change in pension value and nonqualified deferred compensation earnings, and finally $77,355 worth of compensation falling under others.

Anne L. Bramman – Chief Financial Officer

Since June 2, 2017, Ms. Anne L. Bramman has served as Nordstrom Inc.'s CFO. She also sits on the board of McCormick & Company as an Independent Director. Prior to her current role, Ms. Bramman began her financial career in 2004 as VP of Finance at L Brands for Victoria's Secret stores, was promoted in 2006 to VP/ Assistant Treasurer of Mergers, Acquisitions, and Capital Markets, then went on to become the SVP and CFO for the Henri Bendel brand in 2008. Moving across a few other organizations in executive finance positions, namely serving as the CFO of Carnival Cruise Lines at Carnival Corporation until June 2015, and CFO/SVP of Avery Dennison Corporation from March 2015- March 2017, her career has been quite highly distinguished. She graduated the Texas Christian University with a BBA in Accounting, as well as an MBA from the Anderson School of Management at UCLA.

Ms. Bramman's compensation for FY2019 began with a base salary of $793,750, stock awards of $1.55 million, option awards of $1.86 million, non-equity incentive plan compensation of $564,500, and $39,912 of all other compensation for a total of roughly $4.808 million.

Kenneth J. Worzel – Chief Operating Officer

Mr. Kenneth J. Worzel has served as Nordstrom Inc.'s COO since September 2019 after moving from his yearlong stint as CDO with Nordstrom.com. He held various other roles within Nordstrom Inc. prior to becoming the COO, as well as numerous roles outside of the organization. From 1992 – 2010, Mr. Worzel worked with Marakon Associates as a consultant, then Managing Partner who closely partnered with Nordstrom Inc. Across the U.S. and Europe, Mr. Worzel has worked with clients across numerous industries such as pharmaceuticals, financial services, and retailing, advising senior executives on a broad array of issues such as R&D productivity, corporate strategy, and budgeting. Furthermore, he has co-authored numerous articles on these matters in the pharmaceutical industry. Prior to beginning his career, he graduated from Yale University with a B.A. in Economics and Political Science, as well as an MBA from The Wharton School of the University of Pennsylvania.

Mr. Kenneth J. Worzel was the top earner within Nordstrom Inc. during FY2019 with total compensation of roughly $7.498 million. This was comprised of a base salary ($826,111), stock awards ($1.999 million), option awards ($2.4 million), non-equity incentive plan compensation ($645,433), change in pension value, and nonqualified deferred compensation earnings ($1.59 million), as well as all other compensation ($37,080).

Investment Thesis

Market View

The foreseen collapse of the brick-and-mortar department store industry has been accelerated by the COVID-19 pandemic; however, Nordstrom has trended positively amidst the variable economic conditions. This is largely attributed to the Company's ability to innovate and remain a proactive leader in the industry as it ramps up its digitalization initiatives. Consequently, the Company's performance over the last year has continually exceeded market expectations which have repeatedly suggested the Company would merely hold steady and perhaps deteriorate. As the COVID-19 pandemic entered its pinnacle during March 2020, Nordstrom boasted a stock price of USD $24.03 as of March 11, 2020, and was reported at USD $36.05 at close on February 17, 2021. The Company generated $15.5B in revenue during FY2019, down a meager 2.5% from the prior fiscal year while also seeing a near 70% increase in revenue from Q2 2020 to Q3 2020. Despite this relatively positive performance, the market remains somewhat skeptical of Nordstrom's ability to sustain this growth, however, the Company continues to announce strategic initiatives that may leave the market incorrect; again.

Investment Thesis 1- Rapid Digitalization

Nordstrom's generational investments have served as dependable foundations for future growth throughout the Company's existence on a slightly reactive basis being that the company is competing in an antiquated industry. However, the COVID-19 pandemic has forced Nordstrom to transition to proactive, aggressive strategies to bolster the Company's financial health and future prosperity, notably through rapid digital acceleration, robust integration between physical and digital assets, and trimming its retail store portfolio. Tangible results of Nordstrom's commitment to penetrate digital markets is highlighted by 8.4 billion mobile application users who will drive digital revenues to account for more than 50% of sales during FY2022; this is upheld by an EBIT CAGR of 6% or more, outpacing the sales CAGR of 3% to 4% and in return eliciting significant EBIT margin growth and breakeven on generational investments by FY2022.

Investment Thesis 2- Robust Capital Allocation

Nordstrom's disciplined capital allocation has remained a key pillar of the Company's success and will continue to catalyze growth in the future. This has allowed Nordstrom, unlike many of its competitors, to recognize the importance of exiting the traditional department store structure and capitalize on the opportunity to reassign its capital. Firstly, the Company has instituted the scale-down of its retail store portfolio, abating significant fixed costs and initiating a business model overhaul to a high-margin, digitally focussed successor. Secondly, Nordstrom has identified the precedented success and potential of a further upturn in its Off-Price segment, driven by Nordstrom Rack. As such, the Company has invested into bringing

80%+ of its top 200 brands in its Full-Price segment to Rack, allowing Rack stores to fulfill their own online orders with internal inventory, and acquiring an additional 6.6 million customers during FY2019 on top of its existing 22 million. These growth initiatives are centered around Nordstrom's commitment to 3% to 4% of revenue to be reinvested into the supply chain and technology aspects of the business, as well as prioritization of returning leverage rations to a target range of 1.5x to 2.5x over the next 24 months.

Investment Thesis 3- Omni-Channel Moat

Nordstrom Inc. has carved out its margin of safety through its strategic omni-channel investments that are unreplicated in its peer universe of competitors. The company has engaged in the development of omni-channel centers, local omni-hubs, local boutiques, and Rack express services to provide expedited access to Nordstrom inventory that is sought-after in specified regions while scaling back its physical footprint. This has allowed the company to reposition its store fleet, initiate migration to the digitally integrated JWN platform, and ultimately lower consumer friction to bolster engagement across the organization. Additionally, Nordstrom's omni-channel portfolio has been constructed towards being able to win its ten most important markets that have accounted for more than 50% of past sales and a targeted 75% of FY2021 sales. Nordstrom's rugged and differentiated omni-channel moat will continue to prosper while being complemented by digital acceleration initiatives across the Company.

Catalysts

Digital Asset Growth

The COVID-19 pandemic appeared to be a significant antagonist to the department store industry, however, similar to most circumstances in life, there is an opportunity to be capitalized on. For Nordstrom Inc., this was optimizing their digital footprint to adapt to rapidly changing consumer lifestyles and preferences. During Q1 2020, the Company launched a dedicated Canadian e-commerce platform, increasing previous sales volume by 10x. Prior to COVID-19, retail store inventory accounted for 20% of Nordstrom's e-commerce orders. This improved digital platform helped facilitate a 30% increase to this number, assisting the Company with inventory control and reduction. This resulted in an increase of operating cash flow of $187M in Q2 2020 compared to that of 2019, improving from a decrease in operating cash flow in Q1 2020. As digital penetration continues to account for more than half of the Company's sales throughout 2020, this velocity will drive the short-term and long-term revenues for the Full-Price and Off-Price businesses. During FY2020, Nordstrom's Full-Price segment mobile application reached 8.4M users, while the Off-Price, Nordstrom Rack counterpart application generated 2.2M downloads the prior year; this is the largest digital presence in the Off-Price industry.

Trimming Retail Store Portfolio

The department store industry has reached its "decline" stage of its lifecycle due to heavy saturation, significant barriers to entry, and thus, few growth opportunities. However, two key strategies exist for continued success; the first, to expand operations and transition into the supercenter industry, or second, to hone in on a specific niche and adapt to consumer preferences. Nordstrom has chosen the latter as the industry-leading luxury department store retailer whose focus needs to become the online retail space. During Q1 2020 the Company announced the phased closures of 16 existing stores amidst investments into its omni-channel capabilities. These locations were described as being "suboptimal," location-wise, and allows the Company to transition its investments to its digital sales. This trimming of its retail store portfolio may see declines of 20% and upwards to in-store sales, however, a significant uptick in digital sales generated revenue.

Omni-Channel Investments

Nordstrom announced its early and continued investments into its omni-channel capabilities to be their key strategic focus for the foreseeable future. Earlier this year, the Company opened its West Coast Omni Center in Riverside, California to support Full-Price customers currently, and Off-Price customers in the near future. The purpose of these omni-centers is to fulfill Nordstrom's market strategy by having a highly curated inventory to serve the unique and specialized needs of that market. This will limit the inventory on hand, as they did by 25% in Q1 2020, increasing working capital and allowing the Company to cut overhead costs. Consequently, operations can be made more efficient, online sales will continue to grow and ultimately result in an improving bottom line as the industry recovers from the financial effects of COVID-19.

Off-Price Segment Growth

Nordstrom's Off-Price segment, driven by Nordstrom Rack stores, provides market-leading discount luxury goods; Increasing the breadth of this segment is a primary focus of management leading into FY2021. During FY2019, roughly 20% of the Off-Price segment's $5.2B in revenue came from digital sales, while comparable Off-Price competitors such as Burlington Stores reported 0.9% of sales came from online platforms, ultimately suspending their digital sales. The growth of the Off-Price segment has been elicited by Nordstrom Rack boasting a compelling product offering with over 120K customer choices consisting of 80% of the top 200 luxury brands sold in the Full-Price segment. Moreover, the customer base of 22M active users in FY2019 alongside the 6.6M acquired in the same year has proven the growth of the segment and has resulted in 70% of the Rack stores being located in Nordstrom's top 20 markets. Nordstrom has been able to recognize these positive trends and has invested capital during Q2 2020 to enable Off-Price stores to fulfill their own online orders with existing inventory similar to Full-Price stores allowing the Company to mitigate inventory on-hand. The Company also saw 2.2M downloads with the Rack mobile application. Due to the inventory volatility of the Off-Price segment, Nordstrom will have to continue investing in its online database, keeping consumers engaged, leading the market in Off-Price sales, and ultimately acting as another key driver of revenue growth in both the short-term and long-term.

Shareholder Base, Liquidity, Market Depth

Shareholder Base

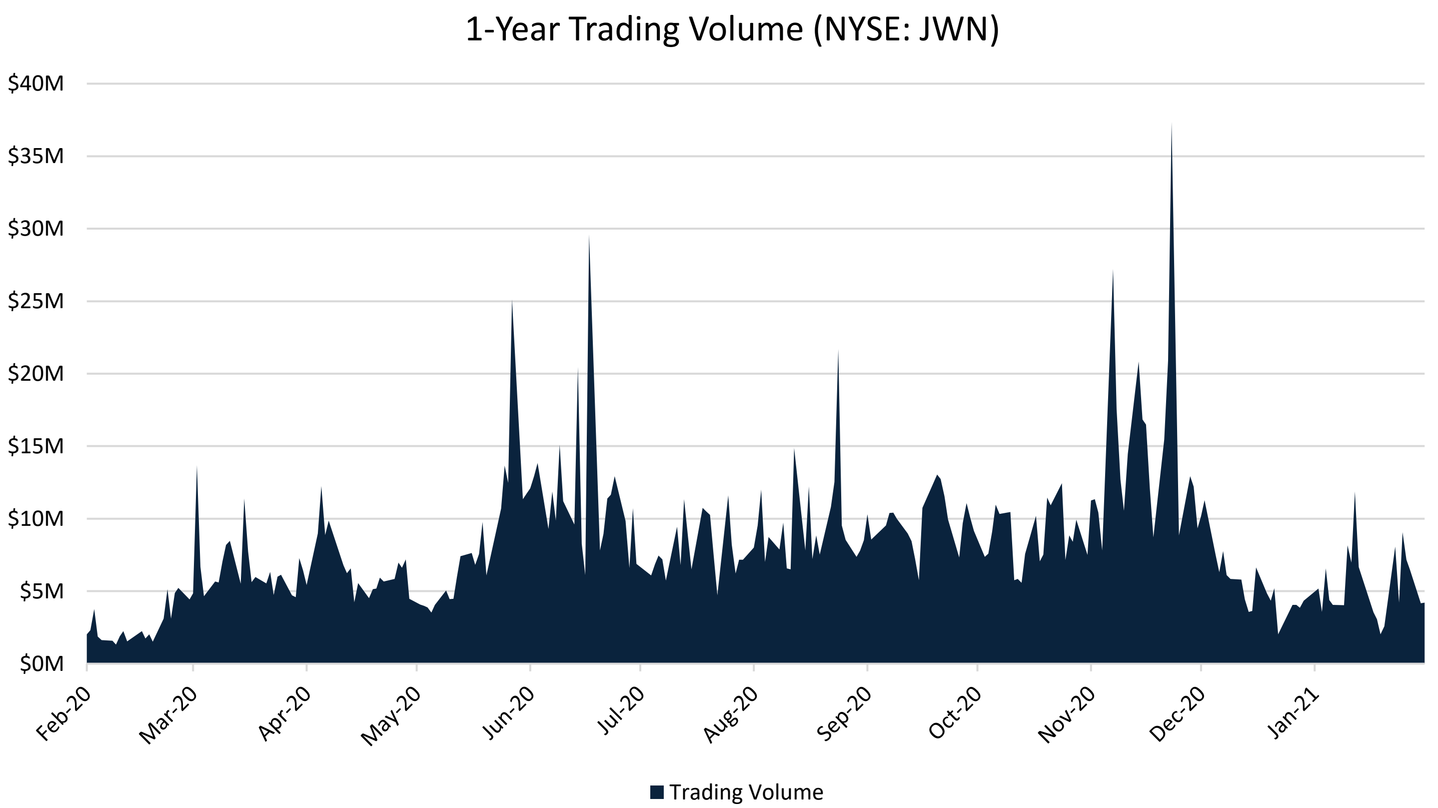
Nordstrom Inc. currently has 157,683,518 shares outstanding. 66.44% of these shares are owned by institutions, 30.3% are owned by insiders, and the remainder is state-owned. The near third of shares being owned by insiders indicate heightened employee engagement, employee alignment with organizational financial targets, and constantly developing relationships across the Company both from the bottom-up to the top-down. The top five shareholders can be found in the table below:

Shareholder	Shares Owned	% Shares Outstanding	Position Date
Bruce A. Nordstrom	25,241,423	16.01%	Mar-11-2020
Anne E. Gittinger	15,403,460	9.77%	Mar-11-2020
BlackRock, Inc.	13,805,426	8.76%	Sep-30-2020
The Vanguard Group, Inc.	9,784,749	6.21%	Sep-30-2020
J.P. Morgan Asset Management, Inc.	4,776,495	3.03%	Sep-30-2020

Source: CapIQ

Liquidity

Nordstrom Inc. has an average daily trading volume of 4,027,088 shares, with significant liquidity spikes during their annual "Anniversary Sale" periods. Amidst the global COVID-19 pandemic that is wreaking havoc on the retail industry, Nordstrom announced in Q1 2020 that they made an $800M amendment to its revolving line of credit and closed its 8.75% secured debt offering of $600M. This increases the liquidity and flexibility position of the Company and thus, based on pre-pandemic and mid-pandemic operations, we believe shareholders do not face a significant liquidity risk when entering or exiting their positions.



Source: CapIQ

Valuation

Comparable Companies Analysis

The comparable companies analysis has chosen the following companies for its peer universe based on similar business models as direct and indirect competitors of Nordstrom Inc. Our analysis returned an implied share price of $40.59 using a projected 2021 EV/EBITDA multiple of 10.1x.

The Gap Inc.

The Gap, Inc. is an international specialty retailer operating retail and outlet stores. The Company sells casual apparel, accessories, and personal care products for men, women, and children under the Old Navy, Gap, Banana Republic, Athleta, Intermix, Janie and Jack, and Hill City brands.

Ross Stores Inc.

Ross Stores, Inc. operates two brands of off-price retail apparel and home accessories stores. Ross Stores offers name-brand and designer apparel, accessories, footwear, and home fashions at discount prices.

Kohl's Corporation

Kohl's Corporation operates a chain of family-oriented department stores. The Company's stores feature apparel, footwear, and accessories for women, men, and children, soft home products such as sheets and pillows, and housewares targeted to middle-income customers. Kohl's also offers online shopping, as well as offers, store credit cards.

Macy's Inc.

Macy's, Inc. operates department stores in the United States. The Company also operates direct mail catalog and electronic commerce subsidiaries. Macy's retail stores sell a wide range of merchandise, including men, women, and children apparel and accessories, cosmetics, home furnishings, and other consumer goods.

The TJX Companies

The TJX Companies, Inc. is an off-price apparel and home fashion retailer in the United States and worldwide. The Company operates off-price retail concepts in the US, Canada, and Europe that offer a wide range of brand names and designer merchandise.

L Brands Inc.

L Brands, Inc. sells women's apparel and beauty products. The Company offers various products including women's apparel, women's lingerie, beauty, and personal care products, home fragrances, and other related products and accessories. L Brands serves customers in the United States, Canada, and the United Kingdom through specialty retail stores, websites, and catalogues.

Urban Outfitters Inc.

Urban Outfitters, Inc. operates retail stores and direct response, including a catalog and Web sites. The Company's Urban Outfitters and Anthropologie retail concepts sell fashion apparel, accessories, and household and gift merchandise. Urban also designs and markets young women's casual wear which it provides to the Company's retail operations and sells to retailers worldwide.

American Eagle Outfitters Inc.

American Eagle Outfitters, Inc. retails men's and women's casual apparel, footwear, outerwear, and accessories. The Company's products include jeans, khakis, t-shirts, and other similar apparel. American Eagle operates in the United States.

Dillard's Inc.

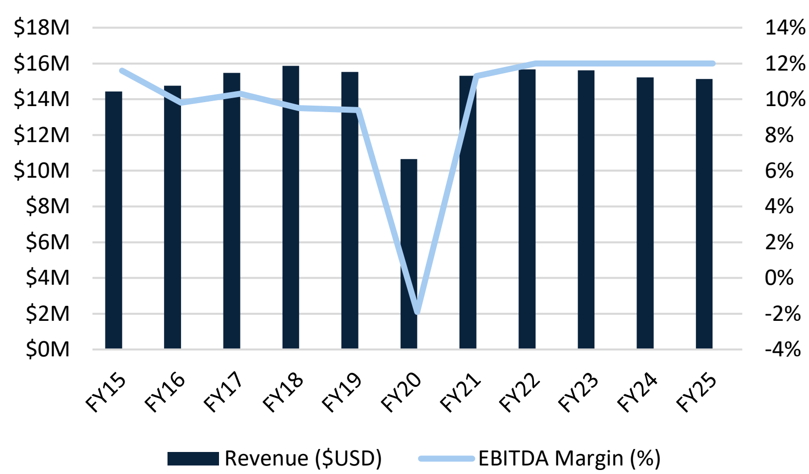
Dillard's, Inc. operates retail department stores located primarily in the southwestern, southeastern, and midwestern United States. The Company offers name-brand and private-label merchandise, including fashion apparel and home furnishings.

(Source: Bloomberg)

Discounted Cash Flow Analysis

Revenue

Historic and Forecasted Revenue and EBITDA Margin
FY15 - FY25



Source: Company Filings

Despite owning a lower market share than some of Nordstrom's closest competitors in the department store industry, the Company's ability to target the luxury goods niche is unmatched. We expect Nordstrom's revenue to increase quite steadily in the near future and into the long-term range. The Company has begun to scale back retail store operations and focus on optimizing its digital space in a highly effective and efficient way. This was evident with a 10x increase in digital sales with a specific Canadian e-commerce platform, launched in Q1 2020. We have driven Nordstrom's Full-Price and Off-Price Retail Store segment growth through physical store growth and closures where we expect an increase in store closures, yet very few store openings beyond 2021. These revenues will be realized with significant growth in the digital sales segment with COVID-19 in FY2020, as well as continued growth at an average of 45% of total revenue within this channel throughout FY2021 and into FY2022. We expect digital sales to account for more than half of Nordstrom's total revenue into perpetuity- in line with trends over the past fiscal year.

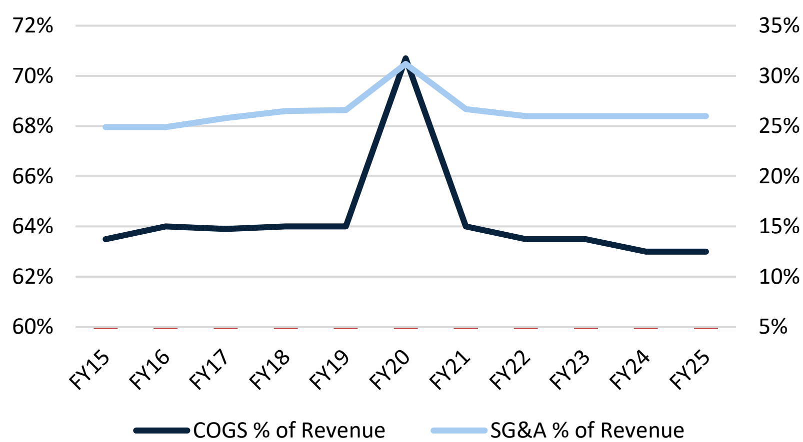
Nordstrom's trajectory to breakeven on their generational investments including rapid digital acceleration (high-margin business model), integration between physical and digital assets, and focus on growth across other margins such as a 6% and above target for EBIT by FY2022 will illicit a gradually increasing EBITDA margin. Additionally, the Company has begun to trim its brick-and-mortar store portfolio which has removed many fixed costs and caused revenue to drop slightly, however, the aforementioned strategic growth initiatives will bolster digital sales and increase Nordstrom's EBITDA margins to roughly 12% by FY2022.

Costs

Nordstrom's cost of goods sold have historically ranged from 63%-76% of total revenue since FY2015, however, this has remained on the higher end of the range during the most recent fiscal year. We anticipate COGS will return to its average of 64% of total revenue as the economy and department store industry recovers and transitions from the COVID-19 pandemic, and Joe Biden assumes office in the United States while prioritizing low federal reserve interest rates to aid in this recovery. This will be followed by a slight decrease in COGS as we anticipate COGS as a percentage of total revenue to drop to 63% by the end of FY2023. Additionally, we forecasted Nordstrom's SG&A as a percentage of total revenue to decline slightly from 31.2% in FY2020 to 26.7% in FY2021, and down to 26% into perpetuity. This is due to the historical range of 24.9%-26.6%, pre-pandemic as well as a positive outlook with a revamped, high-margin business model that revolves around digital sales. This accompanied by a highly probably prospect of breaking even on generational investments in FY2022 and diminishing fixed costs brought about by the trimming of Nordstrom's retail store portfolio has positioned the Company to experience a slight gradual decline in COGS and SG&A costs.

Historic and Forecasted Revenue and EBITDA Margin

FY15 - FY25



Source: Company Filings

Weighted Average Cost of Capital (WACC)

We calculated a WACC of 8.3% for Nordstrom Inc. using data provided by Bloomberg. First, our cost of equity was derived from the U.S. 5-Year Treasury Bill risk-free rate of 1.1%, the annualized S&P 500 expected market return of 9.7%, and a beta of 1.68. Second, we arrive at our cost of debt using a pre-tax cost of debt of 0.93%, an effective tax rate of 27.27%, and applied an adjustment factor of 1.52. Taking this data into account, we calculated Nordstrom's WACC at 8.3%.

Capital Expenditures (CAPEX)

We expect Nordstrom to place a significant focus on building its online presence and thus expanding its omni-channel capabilities in the future. Thus, we have forecasted CAPEX to be 13% (average) of property, plant, and equipment through 2025. This number is slightly lower than pre-COVID-19 years, however, higher than FY2020, due to unsubstantial store openings, and a focus on developing existing digital platforms.

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Effective Tax Rate

We have assumed an effective tax rate of 27.27% which represents Nordstrom's long-term tax rate.

Dividend Policy

Nordstrom Inc. suspended their dividend payments as of Q2 2020; however, the Company has announced that they will "' remain committed' to paying a dividend over the long term and will figure out when it can resume payments 'when appropriate'." We believe that Nordstrom's success with e-commerce, as well as plans to continue building its digital presence will increase revenues and its bottom-line. Thus, we expect dividends to return to the same payments since FY2016 at $1.48 by FY2023.

Terminal EV/EBITDA Multiple

We have used a 2021E EV/EBITDA exit multiple of 10.1x- the industry mean. This is above Nordstrom's 2021E EV/EBITDA exit multiple of 9.5x which is justified by Nordstrom's industry-leading customer experience, strong digital growth prospects, and control over an unmatched luxury goods niche.

Recommendation

Outperform- Buy

We believe that Nordstrom is slightly undervalued by the market, however, we believe there is long-term growth potential. Management has a solid track record of high ROIC investments, a market-leading omni-channel business strategy, the ability to iterate repeatedly, and compelling opportunities to make notable progress in the digital space. The Company's success with e-commerce, and rapidly evolving consumer preferences for convenience and accessibility, driven by catalysts such as COVID-19 enhance Nordstrom's long-term growth potential. Although boasting a small market share in the department store industry, Nordstrom remains a leader with its prevalence in the luxury goods niche, long-standing reputation for impeccable customer service, and market-defining omni-channel supply chain network. Taking this qualitative evidence into account, along with historical and projected quantitative factors, we arrived at our implied share price using the following weightings:

- A 25% weighting on the Perpetuity Growth DCF approach which returns an implied share price of $44.86
- A 25% weighting on the EV/EBITDA Exit Multiple DCF approach which returns an implied share price of $50.34.
- A 25% weighting on the 2021E EV/EBITDA Implied Share Price method using a Comparable Companies Analysis, returning a share price of $40.59.
- A 25% weighting on the 2021E P/E Implied Share Price method using a Comparable Companies Analysis, returning a share price of $29.83.

Using the above weighting, we have arrived at a target share price of $42.00, representing an implied upside of 16.5%. We initiate an Outperform - Buy rating on Nordstrom Inc.

Risks

Downturn in Economic Conditions (COVID-19)

Nordstrom Inc. is a luxury retailer with few products seen as "necessities" and more as discretionary. The current and future impacts of COVID-19, ranging from job loss to poor health, may limit the number of purchases of these expensive, high-quality items. This significant reduction in demand may lead to lower sales, increased markdowns, and considerable expenses to create an overly promotional environment, cover rent in reduced foot-traffic areas, and therefore, changes in operating income and sales. This may cause volatility in the price of common stock and shareholder returns. Furthermore, COVID-19 elicited the suspension of all dividend and share repurchases in 2020, an average of a 46% decline in total sales during the first half of 2020 compared to that of 2019, and a reduction in inventory earlier this year of more than 25%. Nordstrom Inc. also announced the permanent closure of 16 stores in a phased approach due to the negative financial effects brought about by COVID-19.

Outdated Business Model

The Company exists solely in the "department store" industry with no plans to move into the superior "supercenter" industry. As customers shift to the digital sales world, Nordstrom will have to continue to adapt and grow its online presence. After launching a dedicated e-commerce platform in Canada, Q1 2020 saw a 10x increase in previous sales volume. The Company will have to continue to seek growth in this domain while serving customers through the three strategic pillars of providing a compelling product offering, delivering exceptional services and experiences, and leveraging the strength of the Nordstrom brand. This focus will require the execution of new supply chain capabilities and enhancing existing ones, developing mobile applications, bolstering inventory management systems, and improving customer-facing technology, amongst others. This will require expansion in data science and analytics which possesses a highly variable cost structure driven by marketing, fulfillment, and investment costs. The effective integration of stores and digital channels will determine customer expectations, impacting brand, reputation, profitability, and growth.

Network Disruptions and Cyber Attacks

A transition from original in-store sales methods to the digital world significantly increases the attack surface for Nordstrom Inc. In November of 2018, the Company experienced a data breach, exposing sensitive information regarding employees' personal data. The efficient operation of various information systems such as data centers, hardware, software, and applications requires the assumption of innumerable inherent risks. This includes the accurate capturing and maintaining of large amounts of data, realizing the expected benefit of the change, and managing the potential disruption of the operation of systems as changes are implemented. The time and resources associated with this optimization will reduce short-term efficiency which comes at a time when the global retail industry is suffering. Additionally, potential future attacks to the information technology networks that Nordstrom possesses and plans to build may decrease digital activity due to the difficulty of use, lack of trust from the consumers' perspective, and thus a damaged reputation, resulting in loss of sales and expensive remediation.

WESTPEAK RESEARCH ASSOCIATION

Exhibit 1: Model Summary

	Feb-16	Feb-17	Feb-18	Feb-19	Feb-20	May-20	Aug-20	Nov-20	Feb-21	Feb-21	Feb-22	Feb-23	Feb-24	Feb-25	Feb-26
(Figures in mm USD)	**FY2015**	**FY2016**	**FY2017**	**FY2018**	**FY2019**	**Q1-2020**	**Q2-2020**	**Q3-2020**	**Q4-2020**	**FY2020**	**FY2021**	**FY2022**	**FY2023**	**FY2024**	**FY2025**
Income Statement															
Revenue	14,437.0	14,757.0	15,478.0	15,860.0	15,524.0	2,119.0	1,862.0	3,089.0	3,575.0	10,645.0	15,311.7	15,675.0	15,608.1	15,230.4	15,123.1
EBITDA	1,677.0	1,450.0	1,592.0	1,506.0	1,455.0	(635.0)	(195.0)	271.0	357.5	(201.5)	1,421.3	1,645.9	1,638.9	1,675.3	1,663.5
Net Income	600.0	354.0	437.0	564.0	496.0	(521.0)	(255.0)	53.0	130.6	(592.4)	433.0	651.1	647.1	683.1	678.5
Earnings Per Share	$ 3.16	$ 2.02	$ 2.59	$ 3.32	$ 3.18	$ (3.33)	$ (1.62)	$ 0.34	$ 0.83	$ (3.76)	$ 2.74	$ 4.12	$ 4.09	$ 4.32	$ 4.29
Cash Flow Statement															
Capital Expenditures	(1,082.0)	(846.0)	(731.0)	(654.0)	(935.0)	(131.0)	(97.0)	(83.0)	(75.4)	(386.4)	(449.8)	(452.1)	(435.6)	(451.9)	(471.2)
Acquisitions	34.0	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Divestitures	890.0	-	16.0	-	-	-	-	-	-	-	-	-	-	-	-
Dividend Payment	(1,185.0)	(256.0)	(247.0)	(250.0)	(229.0)	(58.0)	-	-	-	(58.0)	(116.6)	(174.8)	(233.1)	(233.1)	(233.1)
Dividend Per Share	$ 6.33	$ 1.48	$ 1.48	$ 1.48	$ 1.48	$ 0.37	$ -	$ -	$ -	$ 0.37	$ 0.74	$ 1.11	$ 1.48	$ 1.48	$ 1.48
Dividend Payout to Earnings	1.98	72.3%	56.5%	44.3%	46.2%	-11.1%	-	-	-	-9.8%	26.9%	26.8%	36.0%	34.1%	34.4%
Dividend Payout to Core FCF	48.7%	12.5%	13.4%	13.4%	9.5%	-63.0%	-	-	-	7.0%	7.6%	10.4%	14.2%	13.9%	13.9%
Dividend Yield	12.9%	3.4%	2.7%	3.9%	5.4%	2.0%	-	-	-	1.5%	2.1%	3.1%	4.1%	4.1%	4.1%
Balance Sheet															
Current Assets	3,014.0	3,242.0	3,503.0	3,374.0	3,230.0	3,667.0	3,405.0	3,907.0	4,534.7	4,534.7	5,073.5	5,403.8	5,731.9	6,199.7	6,682.1
Non-Current Assets	4,684.0	4,616.0	4,612.0	4,512.0	6,507.0	6,302.0	6,130.0	5,904.0	5,816.9	5,816.9	5,612.0	5,484.5	5,361.7	5,275.6	5,223.2
Assets	7,698.0	7,858.0	8,115.0	7,886.0	9,737.0	9,969.0	9,535.0	9,811.0	10,351.6	10,351.6	10,685.6	10,888.3	11,093.5	11,475.3	11,905.3
Current Liabilities	2,911.0	3,029.0	3,289.0	3,381.0	3,520.0	3,799.0	3,642.0	4,394.0	4,804.0	4,804.0	4,821.6	4,548.0	4,339.3	4,271.0	4,255.7
Non-Current Liabilities	3,916.0	3,959.0	3,849.0	3,632.0	5,238.0	5,773.0	5,719.0	5,165.0	5,165.0	5,165.0	5,165.0	5,165.0	5,165.0	5,165.0	5,165.0
Liabilities	6,827.0	6,988.0	7,138.0	7,013.0	8,758.0	9,572.0	9,361.0	9,559.0	9,969.0	9,969.0	9,986.6	9,713.0	9,504.3	9,436.0	9,420.7
Shareholders' Equity	871.0	870.0	977.0	873.0	979.0	397.0	174.0	252.0	382.6	382.6	699.0	1,175.3	1,589.3	2,039.3	2,484.7
Cash	595.0	1,007.0	1,181.0	957.0	853.0	1,355.0	991.0	889.0	1,331.5	1,331.5	1,837.1	2,675.5	3,015.3	3,551.1	4,052.2
Debt	2,805.0	2,774.0	2,737.0	2,685.0	4,795.0	4,307.0	5,820.0	5,461.0	5,461.0	5,461.0	5,461.0	5,461.0	5,461.0	5,461.0	5,461.0
Net Debt	2,210.0	1,767.0	1,556.0	1,728.0	3,942.0	2,952.0	4,829.0	4,572.0	4,129.5	4,129.5	3,623.9	2,785.5	2,445.7	1,909.9	1,408.8
Minority Interests	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Debt/EBITDA	1.3 x	1.2 x	1.0 x	1.1 x	2.7 x					n/a	2.5 x	1.7 x	1.5 x	1.1 x	0.8 x
Operating Metrics															
Return on Equity (ROE)	68.9%	40.7%	44.7%	64.6%	50.7%	-131.2%	-146.6%	21.0%	34.1%	-154.9%	61.9%	55.4%	40.7%	33.5%	27.3%
Return on Assets (ROA)	7.8%	4.5%	5.4%	7.2%	5.1%	-5.2%	-2.7%	0.5%	1.3%	-5.7%	4.1%	6.0%	5.8%	6.0%	5.7%
Return on Invested Capital (ROIC)	68.9%	40.7%	109.7%	64.6%	101.6%	19.9%	-146.6%	21.0%	34.1%	2.0%	45.3%	40.5%	26.0%	22.1%	17.9%
Valuation Metrics															
Stock Price (High)	$ 62.81	$ 50.32	$ 67.74	$ 49.98	$ 43.37	$ 24.94	$ 18.12	$ 32.47	$ 36.05	$ 36.05	$ 36.05	$ 36.05	$ 36.05	$ 36.05	$ 36.05
Stock Price (Low)	$ 35.02	$ 37.80	$ 43.72	$ 25.01	$ 11.72	$ 12.28	$ 11.72	$ 11.82	$ 36.05	$ 11.72	$ 36.05	$ 36.05	$ 36.05	$ 36.05	$ 36.05
Stock Price (Average)	$ 48.92	$ 44.06	$ 55.73	$ 37.50	$ 27.55	$ 18.61	$ 14.92	$ 22.15	$ 36.05	$ 23.89	$ 36.05	$ 36.05	$ 36.05	$ 36.05	$ 36.05
Diluted Shares Outstanding (Average)	190.1	175.6	168.9	170.0	156.1	156.4	157.2	158.2	158.2	157.5	158.2	158.2	158.2	158.2	158.2
Market Capitalization (Average)	9,298.7	7,736.9	9,412.8	6,374.2	4,299.8	2,910.6	2,345.4	3,503.3	5,703.1	3,761.9	5,703.1	5,703.1	5,703.1	5,703.1	5,703.1
Enterprise Value (Average)	11,508.7	9,503.9	10,968.8	8,102.2	8,241.8	5,862.6	7,174.4	8,075.3	9,832.7	7,891.4	9,327.1	8,488.6	8,148.8	7,613.0	7,111.9
P/E	15.5 x	21.9 x	21.5 x	11.3 x	8.7 x					n/a	13.2 x	8.8 x	8.8 x	8.3 x	8.4 x
EV/EBITDA	6.9 x	6.6 x	6.9 x	5.4 x	5.7 x					n/a	6.6 x	5.2 x	5.0 x	4.5 x	4.3 x
FCF Yield to Market Capitalization	14.4%	9.5%	8.5%	12.0%	2.3%					-18.8%	13.1%	19.9%	12.5%	16.0%	15.5%
FCF Yield to Enterprise Value	11.6%	7.7%	7.3%	9.4%	1.2%					-8.9%	8.0%	13.4%	8.7%	12.0%	12.4%
Free Cash Flow															
EBIT	1,101.0	805.0	926.0	837.0	784.0	(813.0)	(370.0)	106.0	195.0	(882.0)	766.7	1,066.2	1,080.4	1,137.4	1,139.9
Tax Expense	(376.0)	(330.0)	(353.0)	(169.0)	(186.0)	326.0	166.0	(5.0)	(53.2)	240.5	(209.1)	(290.8)	(294.6)	(310.2)	(310.9)
D&A	576.0	645.0	666.0	669.0	671.0	178.0	175.0	165.0	162.5	680.5	654.7	579.7	558.4	537.9	523.6
Capital Expenditures	(1,082.0)	(846.0)	(731.0)	(654.0)	(935.0)	(131.0)	(97.0)	(83.0)	(75.4)	(386.4)	(449.8)	(452.1)	(435.6)	(451.9)	(471.2)
Changes in NWC	1,120.0	462.0	291.0	82.0	(235.0)	(555.0)	199.0	(227.0)	224.8	(358.2)	(15.7)	234.7	(197.1)	(0.2)	3.3
Unlevered Free Cash Flow	1,339.0	736.0	799.0	765.0	99.0	(995.0)	73.0	(44.0)	453.7	(705.6)	746.7	1,137.6	711.6	913.1	884.7

Valuation Summary

Current Price	**$ 36.05**
Target Price	$ 41.41
Total Return	14.9%
Recommendation	**BUY**

DCF Valuation	
Perpetuity Growth Implied Price	$ 44.86
Exit Multiple Implied Price	$ 50.34
Comps Valuation	
Comps - EV/EBITDA Implied Price	$ 40.59
Comps - P/E Implied Price	$ 29.83

Exhibit 2: Discounted Cash Flow Analysis

(Figures in mm USD)

WACC Calculations

Cost of Equity	
Risk-free rate	1.1%
Expected market return	9.7%
Market Risk Premium	**8.6%**
Beta	1.68
Cost of Equity	**15.6%**

Cost of Debt	
Pre-tax cost of debt	0.9%
Adjustment Factor	1.52
Effective tax rate	27.3%
Cost of Debt	**1.0%**

WACC	
Market value of equity	5,703.1
Market value of debt	5,461.0
Total Capitalization	**11,164**
Cost of equity	15.6%
Cost of debt	1.0%
WACC	**8.5%**

Free Cash Flow

(Figures in mm USD)	*Feb-16* FY2015	*Feb-17* FY2016	*Feb-18* FY2017	*Feb-19* FY2018	*Feb-20* FY2019	*May-20* Q1-2020	*Aug-20* Q2-2020	*Nov-20* Q3-2020	*Feb-21* Q4-2020	*Feb-21* FY2020	*Feb-22* FY2021	*Feb-23* FY2022	*Feb-24* FY2023	*Feb-25* FY2024	*Feb-26* FY2025
EBIT	1,101.0	805.0	926.0	837.0	784.0	(813.0)	(370.0)	106.0	195.0	(882.0)	766.7	1,066.2	1,080.4	1,137.4	1,139.9
Less: Tax expense	(376.0)	(330.0)	(353.0)	(169.0)	(186.0)	326.0	166.0	(5.0)	(53.2)	240.5	(209.1)	(290.8)	(294.6)	(310.2)	(310.9)
Add: Depreciation and amortization	576.0	645.0	666.0	669.0	671.0	178.0	175.0	165.0	162.5	680.5	654.7	579.7	558.4	537.9	523.6
Less: Capital expenditures	(1,082.0)	(846.0)	(731.0)	(654.0)	(935.0)	(131.0)	(97.0)	(83.0)	(75.4)	(386.4)	(449.8)	(452.1)	(435.6)	(451.9)	(471.2)
Less: Change in net working capital	1,120.0	462.0	291.0	82.0	(235.0)	(555.0)	199.0	(227.0)	224.8	(358.2)	(15.7)	234.7	(197.1)	(0.2)	3.3
Unlevered Free Cash Flow	**1,339.0**	**736.0**	**799.0**	**765.0**	**99.0**	**(995.0)**	**73.0**	**(44.0)**	**453.7**	**(705.6)**	**746.7**	**1,137.6**	**711.6**	**913.1**	**884.7**
Discount factor						-	-	-	0.25	0.25	1.25	2.25	3.25	4.25	5.25
Present Value of Unlevered Free Cash Flow						**-**	**-**	**-**	**444.6**	**444.6**	**684.1**	**947.7**	**546.5**	**646.6**	**577.6**

Discounted Cash Flow Valuations

Perpetuity Growth Method	
Perpetuity Growth Rate	**1.0%**
PV sum of unlevered FCF	3,847.2
Terminal value	7,821
Enterprise Value	**11,669**
Add: Cash	889.0
Less: Debt	5,461.0
Less: Other EV adjustments	
Equity Value	**7,097**
Shares outstanding	158.2
Implied Share Price	**$ 44.9**
Current Price	$ 36.05
Implied Price	**$ 44.9**
Total Return	**24.4%**

Exit Multiple Method	
Terminal EV/EBITDA Multiple	**8.0 x**
PV sum of unlevered FCF	3,847.2
Terminal value	8689.11
Enterprise Value	**12,536.3**
Add: Cash	889.0
Less: Debt	5,461.0
Less: Other EV adjustments	-
Equity Value	**7,964.3**
Shares outstanding	158.2
Implied Share Price	**$ 50.34**
Current Price	$ 36.05
Implied Price	**$ 50.34**
Total Return	**39.6%**

Perpetuity Growth Rate \ WACC	8.10%	7.60%	7.10%	6.60%	6.10%
0.00%	$ 41.51	$ 46.05	$ 51.22	$ 57.19	$ 64.13
0.50%	$ 44.77	$ 49.84	$ 55.68	$ 62.48	$ 70.49
1.00%	$ 48.49	$ 54.21	$ 60.87	$ 68.72	$ 78.10
1.50%	$ 52.78	$ 59.30	$ 66.99	$ 76.18	$ 87.37
2.00%	$ 57.77	$ 65.30	$ 74.30	$ 85.26	$ 98.90

Terminal EV/EBITDA Multiple \ WACC	8.10%	7.60%	7.10%	6.60%	6.10%
6.0 x	$ 37.56	$ 38.91	$ 40.29	$ 41.72	$ 43.18
7.0 x	$ 44.54	$ 46.06	$ 47.63	$ 49.23	$ 50.89
8.0 x	$ 51.53	$ 53.22	$ 54.96	$ 56.75	$ 58.59
9.0 x	$ 58.52	$ 60.38	$ 62.30	$ 64.27	$ 66.30
10.0 x	$ 65.50	$ 67.54	$ 69.63	$ 71.79	$ 74.00

Exhibit 3: Comparable Companies Analysis

(Figures in mm USD)

Company	Ticker	Equity Value	Enterprise Value	EV/EBITDA Multiple 2020A EV/EBITDA	2021E EV/EBITDA	2022E EV/EBITDA	P/E Multiple 2020A P/E	2021E P/E	2022E P/E
The Gap Inc.	(NYSE: GPS)	7,551.1	12,838.1	n/a	9.4 x	8.0 x	(9.3 x)	15.3 x	11.0 x
Ross Stores Inc.	(NASDAQ:ROST)	43,781.8	45,140.0	55.9 x	17.3 x	15.8 x	111.6 x	27.3 x	23.1 x
Kohl's Corporation	(NYSE:KSS)	6,416.8	11,260.8	23.2 x	7.0 x	7.0 x	(15.0 x)	17.2 x	15.5 x
Macy's Inc.	(NYSE:M)	3,493.1	10,596.1	n/a	7.3 x	5.7 x	(3.8 x)	17.3 x	11.5 x
The TJX Companies	(NYSE:TJX)	81,989.0	87,049.6	55.0 x	16.2 x	14.5 x	158.8 x	25.7 x	22.2 x
L Brands Inc.	(NYSE:LB)	10,342.5	17,373.5	9.2 x	8.6 x	8.5 x	15.8 x	13.5 x	12.6 x
Urban Outfitters Inc.	(NASDAQ:URBN)	2,503.7	3,203.4	21.6 x	8.3 x	7.7 x	102.4 x	13.4 x	11.1 x
American Eagle Outfitters Inc	(NYSE:AEO)	3,335.6	4,507.4	32.2 x	9.3 x	8.1 x	(125.4 x)	15.7 x	12.9 x
Dillard's Inc.	(NYSE:DDS)	1,920.8	2,481.7	32.0 x	7.8 x	8.2 x	(22.8 x)	38.5 x	45.2 x
Nordstrom Inc.	**(NYSE:JWN)**	**5,703.1**	**10,275.1**	**(60.6 x)**	**9.5 x**	**9.0 x**	**(11.9 x)**	**24.7 x**	**23.3 x**
Median					**8.6 x**	**8.1 x**		**17.2 x**	**12.9 x**
Mean					**10.1 x**	**9.3 x**		**20.4 x**	**18.4 x**
High					**17.3 x**	**15.8 x**		**38.5 x**	**45.2 x**
Low					**7.0 x**	**5.7 x**		**13.4 x**	**11.0 x**

	EV/EBITDA Impliled Price		P/E Implied Price	
Median	$ 30.02	$ 29.50	$ 25.17	$ 19.94
Mean	**$ 40.59**	**$ 37.94**	**$ 29.83**	**$ 28.45**
High	$ 89.96	$ 84.74	$ 56.16	$ 70.12
Low	$ 19.18	$ 12.22	$ 19.57	$ 17.01

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